

## THE MECHANISMS OF STATE MANAGEMENT IN AGRICULTURAL SECTOR OF GEORGIA

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**Abstract:** *The paper studies the current situation in the agricultural sector of Georgia, its impact on the country's economy and possibilities of development. Agriculture is a traditional sector and it has always played an important role in economic and social development of Georgia. The country has favorable conditions for the development of agricultural sector. Despite urbanization processes in recent years, about half of Georgian population still lives in rural areas and most of them are employed or self-employed in this sector. Therefore, the level of development of agriculture in the country impacts the lives of significant share of the country's population.*

*Agriculture has been paid more attention by the government of Georgia in recent years. In particular, various programs and projects have been initiated and implemented in this direction. These programs aim at encouraging the development of various agricultural activities as well as development of processing industry, which will lead to increasing production and export of Georgian agricultural products. However, currently, development of agricultural sector in Georgia significantly lags behind other sectors of the economy mainly due to insufficient financing of this sector, lack of access to relevant technologies and lack of development of processing industry for raw agricultural materials. Therefore, a number of measures, like scientific-research activities, increasing the awareness of farmers, introduction of technological novelties and improvement of agro-insurance system that will enhance the competitiveness of the sector still need to be implemented.*

**Keywords:** *Management, Agricultural Sector, Economic development, Agricultural Cooperatives.*

## Introduction

Georgia is a small country. The territory of the country is 69,700 square kilometers. The agricultural land covers about 3 million hectares. According to the National Statistics Office of Georgia, approximately 43.3% of the territory of Georgia is considered as agricultural land, including: homestead -1%; permanent crops -9%, permanent meadow - 5%, arable - 27%, pasture - 58%. 41.7% of the population live in rural areas. The country is diverse in nature as well as in physical-geographical and soil and climate characteristics. Nearly one third of the area is covered by forest. Only about 40% of all the arable land available for agricultural use is utilized, which is quite low and amounts to 0.16 ha per citizen. The biosphere of the country is very diverse that is determined by the existence of 12 different zones and 49 types of soil [3]. Climatic diversity allows the production of the crops that are typical for tropical zones. These include grapes, subtropical crops, fruit varieties, early and late vegetables, grass, etc. Despite the favorable natural and climatic conditions existing in the country, the growth rate of this sector has significantly lagged behind the growth rate of other sectors [4].

Agricultural sector is important for Georgia not only from economic perspective, but it also impacts over 3500 villages of the country. The growth trend in agriculture occurred by the end of 1990. The situation was quite different compared to the current one. At that time, the share of agriculture grew year by year and export exceeded import by 70%. Despite the above mentioned positive tendency, commercialization in the sector still remained very low and households mainly produced for self-consumption. During this period agriculture has played a significant role in providing food for people. Since 1990, production of agricultural goods began to decrease continuously and its share in GDP is still decreasing, while the number of self-employed people in the sector is increasing.

41.7% of Georgian population (1,555.1 thousand people) live in rural areas. 48.6% of the employed people work in agriculture, fishery, hunting and forestry. According to the data of 2017, agriculture accounts for 8% of the country's gross domestic product (GDP).

Revenues in foreign currency are received as a result of export of agricultural raw materials and manufactured goods. This has a positive impact on foreign trade relations. Production of the goods that can replace the imported agricultural products leads to the reduction of import, which is positively reflected on the trade balance and contributes to the reduction of the trade balance deficit.

In modern conditions, the study of the peculiarities and tendencies of economic and social development of Georgia, theoretical and methodological research of the actual factors for activating food and industrial potential and efficiency of economic resources are of great importance for the development of agricultural sector.

Economic resources in the agricultural sector of Georgia should be rationally utilized according to individual regions for ensuring economic growth, creation of new jobs, increase in household revenues and real improvement in living standards.

### **Literature Review**

The study in the article is conducted based on the appropriate bibliographic research. The scientific papers by Georgian and foreign scientists, analytical reports, publications and EU research materials on similar issues are studied. Also, there are used the official documents and reports regarding the topic of the article.

According to the National Policy of Cultural Heritage Sector of Georgia, agriculture plays an important role in the economy of Georgia since it is important not only from socio-economic perspective but also it is part of the country's cultural heritage [8].

Taking into consideration that Georgia is a small country, the focus should be made mainly on the quality of the goods produced; therefore, development of bio farming is one of the best ways for the development of agricultural sector. The state should ensure the preferential lending of these farmers. Development and implementation of such state policy will enable the country to actively utilize its largest agricultural and export potential [15, p. 49].

Taking into consideration the experience of foreign countries, farms and cooperatives play a leading role in the development of agriculture. The EU countries have realized that formation of strong, competitive agricultural sector is only possible through joint efforts and activities by farmers. This results in the creation of jobs, improvement of economic conditions, prevention of internal migration and achievement of economic balance between the urban and rural settlements. The problems in Georgian agriculture can be overcome by appropriate knowledge and policies through the development of agricultural sectors. Development of the sector is impossible without cooperation between the participants. This is why formation of agricultural cooperatives is important for restoring and development of agriculture in Georgia [18].

The goal of forming cooperatives are as follows:

- Support restoration of agriculture;
- Eradication of poverty in rural areas;
- Reduction of migration from rural areas;
- Increasing productivity of agricultural production.

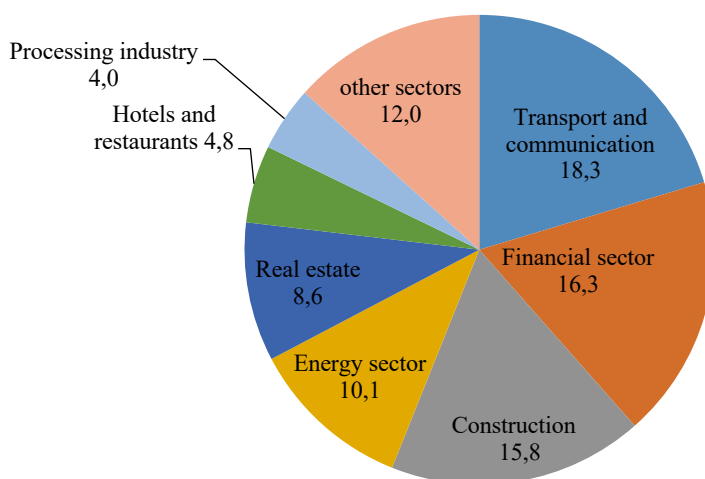
Not long ago, the importance of cooperatives was either ignored or misunderstood in Georgia. They have been often associated with the Soviet collective farm. Currently, the situation is completely different and people are much better informed about agricultural cooperatives, which is the result of the efforts made by the Ministry of Agriculture and the EU and FAO (Food and Agriculture Organization) experts working to help the ministry. As of 2016, 1586 agricultural cooperative were registered in Georgia, including 484 cooperatives which were granted the status of agricultural cooperative in 2016 [14].

### Methodology

The following research methods are applied in the presented paper: statistical such as selection, grouping, observation, trend as well as analysis, induction and comparison methods. The article presents the data by the National Statistics Office of Georgia and the Ministry of Agriculture of Georgia.

Agricultural sector can play passive or active role. The passive role implies development of agricultural sector only from the point of social goals, i.e. to implement the policy against poverty. The active role is expressed when infrastructure and investments in this sector are actively increasing and the sector gains commercial importance. Dynamic development of agricultural sector, development and implementation of a long-term program is very important for economic development of the country [10].

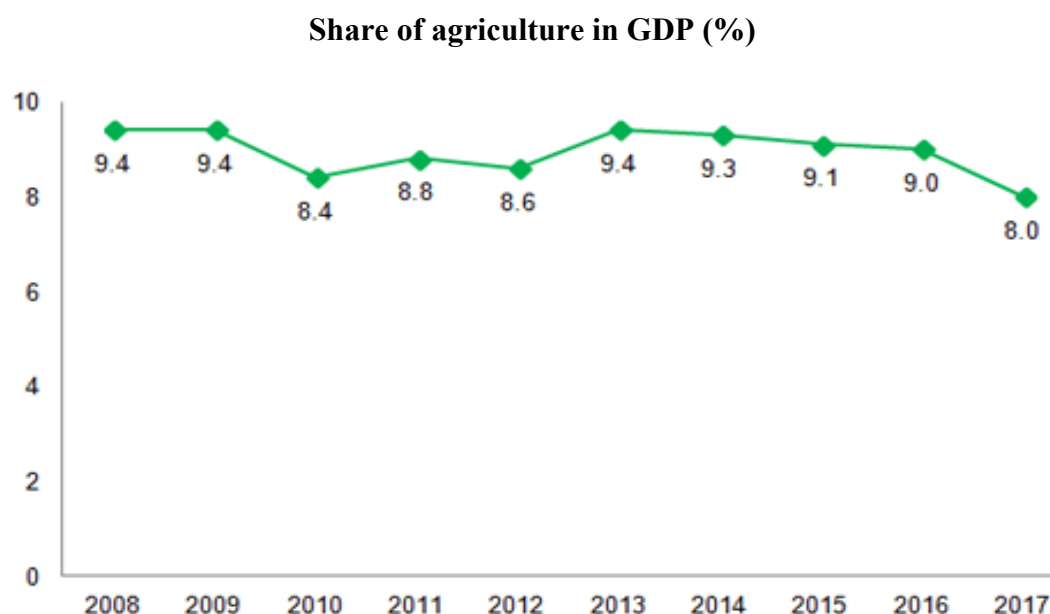
### Foreign Direct Investments, 2017



As the Figure shows, in 2017 the largest three sectors accounted for 60.5% of foreign direct investments. The largest share of foreign direct investment went to the transport and communication and amounted to 527.1 million USD, which is 28.3% of the total foreign direct investment. It is followed by financial sector with 304.3 million USD, while the construction sector takes the third place with 294.6 million USD. Agriculture accounts for only 3% of investments [12].

There is some skepticism whether the state can play a significant role in helping the sector overcome the crisis and whether benefits received from the sector exceeds the large amount of expenses it requires. The traditional approach to agricultural sector is determined by the open trade relations, according to which it is advisable to develop the sectors which have relative advantage. Georgia consumes more imported products than it produces. Therefore, the question arises whether it is advisable to focus on agricultural sector and declare it as a priority [10].

According to the data of 2017, agriculture accounts for 8% of GDP in Georgia. According to the data provided by the National Statistics Office of Georgia, this indicator has changed over the past years, which is illustrated on the figure below.



As the figure shows, the share of agriculture in the country's GDP was highest in 2013. Since that year, the contribution of agriculture to GDP has been continuously decreasing. According to the data of 2016, agriculture accounted for only 9% of GDP. This indicator was 8% in 2017 [5].

High level of poverty in rural areas plays a significant role in hindering agribusiness development. The people employed in agriculture are paid only about 64% of the average salary in the country. In addition, almost nothing has changed in terms of poverty reduction and improving welfare in recent years. Although the state pays some attention to this sector, the measures taken in this direction may not bring the desired result. Some types of investments like seeds, pesticides, fertilizers and other similar materials are relatively available for the people operating in this sector. However, some of the major problems that negatively reflect on the development of the sector need to be highlighted:

- Lack of education and qualification;
- Quality of the goods produced;
- Falsification of products;
- Lack of access to information;
- Lack of funding;
- Lack of technical equipment;
- The use of unproductive and poor quality seed material.

These are some of the important problems that do not allow the agricultural sector to develop. As a result of these problems, the efforts made are often vain and it is not possible to get relevant return. [13].

The world experience of the development of agricultural sector of economy shows that high level of solvency of the population does not ensure profitability of agribusiness. The practice shows that the countries where living standards and income of the population is high, allocate most money to support manufacturers of agricultural goods. For example, it amounts to 46.5 billion USD (1% of GDP) in the US, 107120.4 billion USD (1.3% of GDP) in the EU countries and 48.7 billion USD (1.4% of GDP) in Japan.

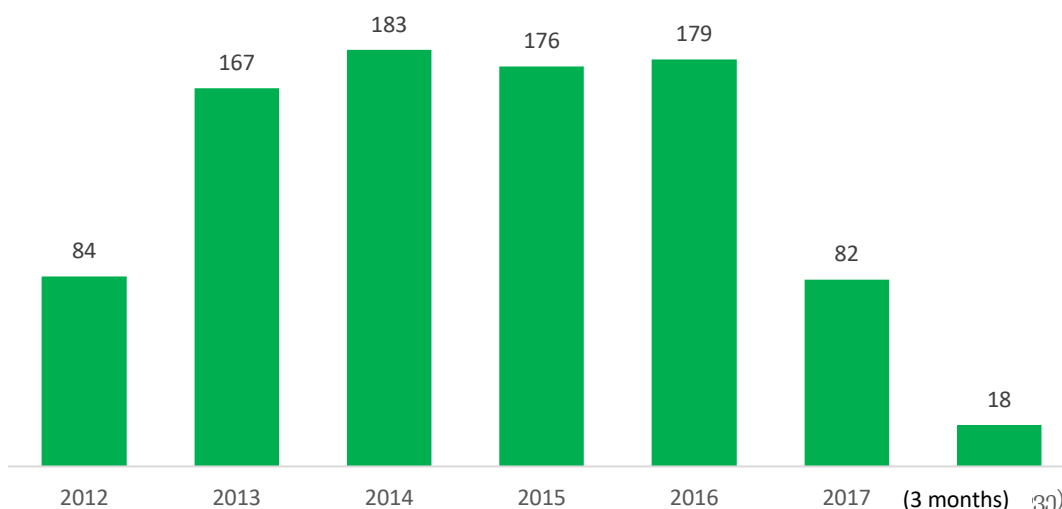
Agriculture has held a minor place in the policy implemented by the government of Georgia for the last twenty years. Priority was given to the sectors that urgently needed reforms. In particular, these were effective governance and encouragement of free trade. Development of agriculture has become a priority in Georgia in 2010-2011. In the 2014 state budget the funding for the Ministry of Agriculture increased by 60% and funding (76.16 million GEL) allocated for agricultural sector increased by 80% compared to 2013. This growth of funding was determined by the need of implementation of the agriculture strategy. In 2015 the budget of the Ministry of Agriculture amounted to 119.998 million GEL - 1.5% of total state budget, which is quite small compared to the contribution of agriculture in the economy as the share of this sector in the GDP is 8-9% and the contribution in employment reached 54%. 88.8% of the 119.998 million GEL (106.575 million GEL) was focused on the agricultural development program; 4.7% (5.674 million GEL) on the rehabilitation of food safety, plant protection

and diseases and 6.5% (7.750 million GEL) on the development of viticulture and winemaking. However, the projects funded by 108 donors were not included in the 2015 budget, which amounted to 16% of the budget. According to the 2017 budget proposal, 238.140 million GEL was allocated for the Ministry of Agriculture, which was 57 million GEL less compared to the planned indicator of 2016. 176.444 million GEL was allocated for agricultural development program compared with 251.870 million GEL in 2016. In 2018, 276.0 million GEL was allocated for the Ministry of Agriculture [11] and the corresponding figure for 2019 is 298.1 million GEL [12].

The difficulties in agricultural sector of Georgia require rational utilization of resources in the country, which can be achieved by optimal evaluation of these resources. Under the current circumstances in our country, it is essential to fully mobilize resources and use them efficiently. Perfect organization of this process leads to economic growth and increase in general welfare [1, p. 4-5].

Currently, for Georgia it is important to encourage the development of the sectors, which have evident growth potential. Production of hazelnut is one of the important directions from this perspective. For Georgia hazelnut is one of the important agricultural cultures. Georgia is one of the top five largest hazelnut exporters around the world. Hazelnut is grown almost in all the regions of the country, however, Samegrelo and Zemo Svaneti (52%), Guria (24%) and Imereti (12%) are the most prominent in this direction. According to the data of the past five years, average hazelnut production in Georgia is 30 thousand tons on average. Georgia held the third position following Turkey and Italy in the top three largest hazelnut exporters but in 2017 the country moved to the forth position after the US. Georgian hazelnut is mainly exported to the EU market.

**Hazelnut export from Georgia in 2012-2018 (million USD)**



In 2016-2017 hazelnut production decreased mainly due to fungal and bacterial diseases (gray and brown rot of hazelnut) as well as spread of invasive pest Asian Parosana. These circumstances have had negative impact on the quality and export of hazelnut. In 2017, export of Georgian hazelnut amounted to 82 million USD, which is 54% lower compared to the previous year. In 2017 export of hazelnut accounted for 11% of the total agricultural export of Georgia [21].

It is also worth mentioning that there is a good possibility of development of viticulture, which has historical and traditional character. The majority of vineyards are situated in Kakheti. Georgian wine is exported to over 40 countries. Development of milk and dairy products and livestock sector is also a priority.

Agricultural cooperatives play a significant role in the development of agricultural sector. According to the Law of Georgia on Entrepreneurs, „A Cooperative shall be a company based on the labour activity of its members or established for developing the business and increasing the income of the members. The objective of a cooperative shall be the satisfaction of interests of the members. A cooperative shall not aim primarily at gaining profit.“ Cooperatives are fully free in their activities in the frames of their charters. The Parliament of Georgia has adopted some relevant laws like the Law on Agricultural Cooperative, under which a corresponding agency was established. This agency grants and terminates status to agricultural cooperatives and monitors them.

## Discussion

The possibilities of agricultural sector to develop are related to meeting the modern standards. Sharing the world experience is necessary for keeping in touch with the current global events. Contemporary world experience of the production and consumption of organic products and modern trends of global agri-market development indicate that organic farming is the dynamic and highly developed direction of the agrarian sector. Bio-farming is one of the most important trends in the modern world and is met in 120 countries. It implies farming and production methods, which contributes to the interaction between living organisms and environment so that equilibrium in nature is protected. Fertilizers, pesticides and other chemical supplements that can affect health of people are not used in bio-farming. Currently, in Georgia there is one bio-farming association Elkana with about 400 farmers [15, p.1-3].

Development of agro-tourism is another important issue related to the development of agricultural sector. It implies the involvement of tourists in local farming activities taking into consideration their interests. Tourists



get engaged in traditional agriculture without damaging ecosystem. As a result, households receive additional economic benefits and additional incentives as well. There are important resources for the development of agro-tourism in Georgia: hospitality, diverse cuisine, beautiful landscapes, etc. Since 2006 the Biological Farming Association Elkana has been implementing the project “Rural and Tourism Development in Georgia” aiming to promote the increase in tourism and local production, resulting in the increase in the income of local population.

In addition to the above-mentioned, for the development of agricultural sector it is very important that the government creates a framework, which, together with other activities, will help the sector to develop. For this purpose, a number of programs and projects have been implemented:

The Preferential Agro Credit Project is a national project initiated by the Ministry of Environmental Protection and Agriculture of Georgia and it has been implemented by the Agricultural Projects Management Agency since 2013 under ‘The United Agro Project’. The purpose of the project is to support the processes of primary agricultural production, processing, storage and sale by providing both individuals and legal persons with cheap and preferential funds.

Rural young entrepreneurs supporting program ‘Young Entrepreneur’ – the program focuses on young people, who are citizens of Georgia and wish to carry out some business activities in Georgia. The program is initiated by the Ministry of Environmental Protection and Agriculture of Georgia and is implemented by the Agricultural Projects Management Agency with the financial support of donor organization - Danish International Development Agency “Danida”.

Agro insurance – the agro insurance program was launched in 2014 and it aimed at the development of insurance market in agricultural sector, encouraging agricultural activities, maintaining income and reducing risks for the people working in this sector. Insurance is provided by 7 insurance companies operating in Georgia [2]. According to the agro-insurance program of 2018, the beneficiary can insure up to 5 hectares of land (30 hectares in case of cereal culture). Each insurer will receive co-funding in the amount of 70% for all the cultures envisaged by the program and 50% for the vine. In addition, both cereal and other cultures can be simultaneously insured by the insurer. According to the program, fixed insurance rate was determined.

Georgian Tea Plantation Rehabilitation program, which aims at:

- Effective use of the potential of tea plantations in Georgia, encouraging increase in the production of local tea (including bio-tea) and, as a result, improving self-sufficiency rate and increasing export potential;
- Rehabilitation of both private and state-owned abandoned tea plantations;
- Employment of the population and improving their socio-economic conditions;

- Encouraging establishment of tea primary processing modern enterprises.

The activities needed for the rehabilitation of both private and state-owned tea plantations are co-funded from the program.

“Produce in Georgia” is a program implemented by the Ministry of Economy and Sustainable Development and the Ministry of Agriculture of Georgia. The program aims at:

- Encouraging development of the industries which focus on production;
- Encouraging establishment of new enterprises as well as the expansion and refurbishment of existing enterprises;
- Agricultural development.
- The enterprise financed within the state program has to meet the following minimum requirements:
- Funding of the loan or signed lease agreement must be directed to the creation of new enterprises or expansion and refurbishment of existing enterprises;
- The enterprise should meet the safety, environmental protection, sanitary and food safety requirements determined by the legislation of Georgia.

In 2014 the Association Agreement was signed between Georgia and the European Union. This agreement provides increased possibilities for Georgian agri-food products. Unlike other free trade agreements signed by Georgia, Deep and Comprehensive Free Trade Area (DCFTA) implies liberalization of trade both with goods and services. In addition, DCFTA includes a wide range of trade related issues like food safety, competition policy, etc. It is the instrument for bringing Georgian trade related legislation closer with the EU legislation gradually. DCFTA provides a possibility for Georgia to benefit from three out of the four EU internal market freedoms – movement of goods, services and capital. The forth freedom, free movement of persons, is supported by the visa liberalization process [5]. It is essential to develop the economic collaboration not only with EU, but with the rest of the world, in order to strengthen relationships with international organizations, to achieve successes on the way to labor distribution and settling placement within world market. The objective of the economic strategy is to accelerate economic ties with other friendly states. One example of such kind of collaboration is the Charter between Georgia and United States of America. Mentioned document, affirms the importance of The United States of America and Georgia’s relationship as partners and strategic allies. The Charter intends to deepen partnership to the benefit of both nations and expand cooperation across a broad spectrum of mutual priorities (USA, Department of state, 2009) [16, p.58].

## Conclusions

Thus, the current situation shows that the agricultural sector in Georgia significantly lags behind other sectors of the economy, which is mainly conditioned by insufficient financing of this sector, lack of access to relevant technologies and lack of the complex structure for processing of raw materials. According to statistical data, almost half of the population is dependent on income from agriculture. The state is trying to use various ways to help farmers but development of agriculture cannot be achieved by one-time assistance. Agricultural sector has suffered from recession for a long time already resulting in the reduction of efficiency in production, decapitalization and poverty.

Natural and climatic conditions of Georgia provide good possibility for producing ecologically friendly products, which is becoming more and more demanded on the global market.

Agricultural sector plays a significant role in economic development of the country and it is essential to support development of this sector and carry out a number of measures in this direction, in particular, these are development of scientific-research activities, increase awareness of farmers, introduction of technological novelties and improvement of agro-insurance system that will enhance the competitiveness of the sector.

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